Discussion of “Attention Spillover in Asset Pricing”

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Summary

- The joint impact of overconfidence and attention spillover on stock prices and turnover
- Identification strategy:
  - (Arguably exogenous) stock display based on the order of listing codes on trading platforms in China
  - A quasi-natural experiment: the distance is increased by the introduction of the SME Board between Shanghai and Shenzhen Main Boards
- Main findings
  - Stocks with higher-past-two-week-return neighbors have higher returns and turnover in the following week (with reversals later)
  - Stronger co-movement of adjacent stocks than that of distant stocks
  - Investors tend to buy neighboring stocks after winning experiences

Overcall

- Very interesting and carefully executed
- Novel identification strategy

- Comments:
    - Mechanisms
    - Trading behaviors
    - Mistakes as an alternative
    - Patterns of spillover

Comments

Mechanisms

- Overconfidence (positive feedback) + Attention spillover
- Placebo tests to shut down each channel separately
  - by looking at distant stocks
  - by replacing returns with turnover and volatility
- Two questions in my mind:
  1. Why does attention spill over?
  2. What kind of attention spills over?

Comments

Why does attention spill over?

- If they are overconfident, why not just buy more shares of this stock?
- Why do investors want to trade other stocks?
- Is it possible to do comparison between the direct effect and spillover effect?

Comments

Why does attention spill over? A hypothesis

One possible hypothesis: daily price limits in China

- If the focal stock hits the upper limit and grabs attention, the investors may tend to buy it next day, or
- They may tend to trade other "related" stocks (probably including adjacent stocks)

- Test whether price limit facilitates spillover effect

Comments

What kind of attention spills over?

- What kind of attention would spill over and trigger trading and price impact?
- Lots of attention-grabbing events
  - trading volume, volatility, extreme returns, historical high, advertising, news, ...
- This paper finds results from returns rather than turnover and volatility of neighboring stocks
- But returns could be related to many other attention-grabbing events, e.g., news, SUE, ...
  - not sure if it is due to attention to positive investment experience

Comments

Trading

- Transaction and holding data from a retail brokerage firm
- The winning experience at the level of investorXdayXcurrently held stock
  - Does overconfidence stem from stock or portfolio level winning experience?
  - Would the contribution of winning stock to the whole portfolio matter?
- Use account level data to explore mechanisms mentioned above

Comments

mistakes?

- Investors trade adjacent stocks by mistakes? (Rashes 2001)
- The paper argues that no results of turnover prediction for returns address the concern
  - it is more straightforward to look at turnover prediction for turnover
- Also, it would be helpful to check
  - Would the effect be much stronger for stocks right next to the focal because of wrong clicks?
  - Would the effect be stronger for listing codes similar to that of the focal stock
    - ... 60051**7** 60051**8** 600519 600520 600521 ... 6005**2**9 ...

Comments

Patterns of spillover

- Why two weeks for the window of past returns?
- Why 10 stocks as neighboring stocks?

- It is interesting to understand the **range** and **speed** of spillover?
- It is also interesting to capture the spillover dynamics
  - any lead-lag effect over the distance to the focal stock?

Conclusions

- Well designed and executed
- May explore more on the mechanisms

- Best of luck